



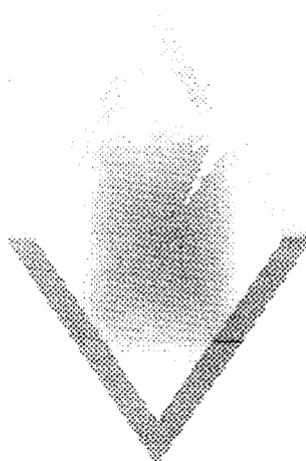
## In conclusion

- ◆ Local competition is taking place in the Bell Atlantic region
- ◆ Resellers and CLECs are competing in the business and residential markets
- ◆ Wholesale products, systems, interfaces, centers, measurements and processes are in place to help market entry
- ◆ National standards are evolving
- ◆ Bell Atlantic is taking the lead in implementing the Telecom Act

## Comparison of Competitive Entry (as of 1/31/98)

	New York	Texas	California
<b>Total Trunks</b>	130,000	53,000	120,000
<b>Collocation</b>	212	141	394
<b>Total Orders</b>	15,500	86,000	40,000
<b>% Electronic</b>	95%	25%	20%
<b>Loops</b>	20,000	260	30,600
<b>UNE or Platform</b>	1,900	242	89
<b>Ported Numbers</b>	44,400	10,139	22,758
<b>Resold – Business</b>	110,000	40,000	105,000
<b>Resold – Residence</b>	23,000	176,000	148,000
<b>Total Resale</b>	133,000	216,000	253,000
<b>MOUs to CLEC</b>	1,021,000,000	36,000,000*	NA
<b>MOUs to BA</b>	189,828,000	48,000,000*	52,000,000*
<b>Competitor Lines (including Resale)</b>	403,000	NA	NA

\* without Internet



**Bell Atlantic - New York**  
**TELRIC Costs and UNE Pricing**

*Pat Garzillo*

*Service Costs*

*March 24, 1998*



# Forward Looking Cost Methodology



## ■ *Investment Costs*

- *Forward looking technology costs are representative of immediate future capital expenditures faced by the Company in the future*
- *Rates assume that customers will subscribe to the service throughout the economic life of the equipment*

## ■ *Non-Recurring Costs*

- *Traditionally, NRC rates are set for the current year to capture incurred costs for ordering and provisioning services to insure prompt cost recovery*
- *NRC rates based on hypothetical, untested, or purely theoretical provisioning approaches will cause the Company to under-recover today's forward-looking costs of doing business (and will be exacerbated by increased customer churn in a competitive marketplace)*
- *Need a "feedback mechanism" to determine if wholesale NRC rates are recovering the incurred provisioning costs of a new wholesale market as well as capture further efficiencies realized as all market participants gain experience and new systems reap benefits*



# TELRIC Forward Looking Cost Assumptions



## ■ *Loop*

- *Integrated Digital Loop*
- *100% Fiber Feeder*
- *Copper Distribution*

## ■ *Switching*

- *100% Digital Switching*
- *ISDN Capable*

## ■ *Interoffice Facilities*

- *100% SONET Fiber Facilities*

## ■ *Signaling System #7*

- *Signal Transfer Points, Service Control Points*



# TELRIC Filed Costs versus Commission Approved Rates

UNE	TELRIC FILED COSTS	COMMISSION APPROVED RATES
LINK - MAJOR CITIES	\$16.75	\$12.49
LINE PORT	\$6.03	\$2.50
LOCAL SWITCH USAGE-DAY	\$0.00762/MOU	\$0.00381/MOU
TANDEM PORT	\$13.99	\$5.28
DS3 - FIXED + PER MILE	\$1134.70 + \$25.09/mile	\$911 + \$20.10/mile
STP PORT	\$1532.22	\$775.22



# Cost Study Assumptions

STUDY INPUT	BA-NY FILED	NYPSC ORDERED
LINK FILL FACTORS	DESIGN CONSTRUCT FILL FACTORS	OBJECTIVE FILL FACTORS
SWITCH DISCOUNTS	GROWTH DISCOUNT	MIX OF SWITCH REPLACEMENT AND GROWTH DISCOUNT
COST OF MONEY	13.18%	10.2%
DEPRECIATION	ECONOMIC LIVES	PRESCRIBED RATES
OVERHEADS	BASED ON WHOLESALE FACTORS	AVOIDED RETAIL PLUS 10% REDUCTION FOR PRODUCTIVITY



# Impact of Forward Looking Cost Assumptions

- *Current investment of \$16B reduced to \$10B based on TELRIC approved rates*
- *Removed \$1.1B in current expenses based on removal of retail marketing and indirect costs*
- *Reduced copper distribution maintenance to reflect new copper placement*
- *Calculation of TELRIC rates based on traditional expense to investment relationships*
  - *As future investments decrease, incurred maintenance/administrative costs do not decrease at the same rate*



# Non-Recurring Link Installation Costs



- *BA Cost Methodology*
- *Reviewed work operations required to install a link for a TC*
  - *Coordination Bureau*
  - *RCMAC (switch translations)*
  - *LDMC (loop assignment)*
  - *Central Office Frame (cross connect wiring)*
- *Calculated Weighted Average Times by work function*
- *Reviewed time estimates to reflect OSS mechanization as well as BAU process improvements*
- *Reduced time estimates for three of the four work groups reflecting potential system/process efficiencies*



# Non-Recurring Service Order Costs

- *BA Cost Methodology*
- *Reviewed work operations at Carrier Account Team Center (CATC)*
  - *Hot Cuts and New Link Orders*
  - *Orders for One Link, Two-Nine Links, and greater than Nine Links*
- *Surveyed CATC representatives for three time estimates*
  - *Minimum, Maximum, and Most Likely*
- *Developed Weighted Average Time Estimate*
  - *( Min. + 4\*Most Likely + Max. ) / 6*
- *Reviewed time estimates to account for OSS mechanization*
  - *Single link order times for both New and Hot Cut service reduced to zero to reflect the use of DCAS ordering by the TCs*



# PSC Phase II Order No. 97-19 on Non-Recurring Costs



- *Replaced Average Weighted Times with Minimum time estimates*
  - *Selected the "outlier" time estimate*
  - *Represents the simplest job faced by the representative/technician as opposed to the full range of job complexity captured by the complete Min/Max/Most Likely survey results*
  - *For those time estimates that represented the experience of a single subject matter expert (because in some cases the activity in question has not as yet been performed) the Company's time estimates were reduced by 43%*
- *For the link installation, today's current multi-cross connect provisioning process was rejected for a future electronic cross connect assumption*
  - *Fails to recognize costs that are being incurred today due to the requirement to connect the link frame appearance(s) to the TCs' Collocation Cage*
  - *Current provisioning activities will be required in most central offices for the foreseeable future*
  - *Present technology selection (IDLC) may be replaced/outmoded during this period*
- *The NYPSC postponed the use of an "electronic cross connect" time estimate for a one year period.*



# Non-Recurring Costs

## Loop (SVGAL)



ELEMENT	FILED COSTS		APPROVED RATES	
	New Link	Hot Cut	New Link	Hot Cut
1 Link	\$0.00	\$0.00	\$0.00	\$0.00
2 - 9 Links	\$0.00	\$14.99	\$0.00	\$7.50
10 or More	\$14.99	\$14.99	\$8.70	\$8.70
Provisioning	\$57.34	\$86.81	\$28.44	\$44.86



# Non-Recurring Costs

## End Office Line Port



ELEMENT	FILED COSTS	APPROVED RATES
SERVICE ORDER	\$0.00	\$0.00
PROVISIONING	\$44.79	\$32.70



# TELRIC Phase III

## (March 1998)

- *CENTREX/ISDN Features*
- *Non-Recurring Provisioning Costs*
- *SS7 Transport & AIN*
- *Operator Services & Directory Information*
- *Collocation*
  - *Physical and Virtual*



# Costs for Opening up the Local Network



- One-Time Development Onset Expenses
  - Methods and Procedures
  - Interfaces and New Functionalities/Systems
  - Modifications to existing systems
- Ongoing Onset Expenses
  - Investment-related
  - Keeping One-time development current
  - New activity costs
- Specific Carrier Requirements



## One-Time Development Onsets - (for System Demonstrated)



- \$107M of Expense for OSS implementation
  - Interface/Functionality/System development
  - Requisite modifications in existing systems
  - Necessary methods & procedures
- \$31.3M of Incremental Investments
- The Company's effort was mandated by the Act and the express requirements of Carriers



# Cost Onsets: Charges During Recovery Period



**RATE  
ELEMENTS**


**BA-NY  
PROPOSED**

**NYPSC  
ORDER**

RESELLERS	\$2,464/Mo	DEFERRED
CLECs	\$4,743/Mo	DEFERRED
COST PER TRANSACTION	\$0.96/Each	DEFERRED




# Activity-Related Charges

- 
- Non-recurring charges apply when an End-User switches to a competitor to recover the costs associated with the required activities.
  - Solvent businesses pass along costs associated with providing products and services to the users of those products and services.
  - Costs incurred by Bell Atlantic to provide service to End-Users (new or migrating from a competitor) are passed on to the End-Users as non-recurring charges and/or the actual rates of the services.



# Who Should Pay?

- 
- A horizontal decorative bar consisting of a long solid black rectangle followed by a series of smaller squares in various shades of gray and patterns.
- The most appropriate method, and the one that most promotes economic efficiency in a market is that recovery should come from the cost causers.
    - Many of the costs are required in order to achieve the avoidable-cost “savings” that have already been passed on to the Resellers and CLECs.
  - Various parties have suggested that the costs be recovered from: The Carriers, Shareholders of the ILECs , the End-Users, Other Sources.
  - Difficulties exist in recovering costs from certain groups due to existing regulatory environments.

# *Wholesale Performance Reports*

*Bell Atlantic*

*Julie Canny*

*March 24, 1998*

## *Agenda*

# The Evolution of Performance Metrics:

## □ FCC Merger Order

- Reports
- Negotiate Standards & Remedies

## □ DOJ Additional Requirements for LD Entry

# *How to determine parity???*

## *The Moving Target*

- ☐ *LCUG: Local Competitors Users Group*
- ☐ *State Service Proceedings (NY)*
- ☐ *Individual Carrier Negotiations/Arbitrations*
- ☐ *DOJ/FCC Comments on 271 Filings*
- ☐ *FCC Merger Order*
- ☐ *DOJ Letter to SBC*

## *FCC Order on Bell Atlantic Merger*

- ❑ Performance Reports
- ❑ Negotiate Standards subject to mutuality
- ❑ Negotiate Self Enforcement Mechanisms

# *Bell Atlantic FCC Reports*

## ☐ *22 Categories for each of 14 jurisdictions:*

- Pre-Ordering (2 measures)
- Ordering (5 measures)
- Provisioning (6 measures)
- Network Performance (2 measures)
- Maintenance (5 measures)
- Billing (2 measures)

## ☐ *Services Measured:*

- Operational Support Systems (OSS)
- Interconnection Trunks
- Unbundled Network Elements (POTS & Specials)
- Resale (POTS & Specials)



# ***Bell Atlantic FCC Merger Agreement - Reporting:***

## ☐ ***Customer Groups:***

- To FCC:
  - Aggregate of CLECs
  - Bell Atlantic
  - Bell Atlantic Subsidiary (When/If Created)
- To Carriers:
  - Individual CLEC Performance

## ☐ ***Geography:***

- By State

## ☐ ***Time frame***

- Quarterly with Monthly Information
- 45 Days after Close of Quarter